# Westcoast Transmission 1974 Annual Report



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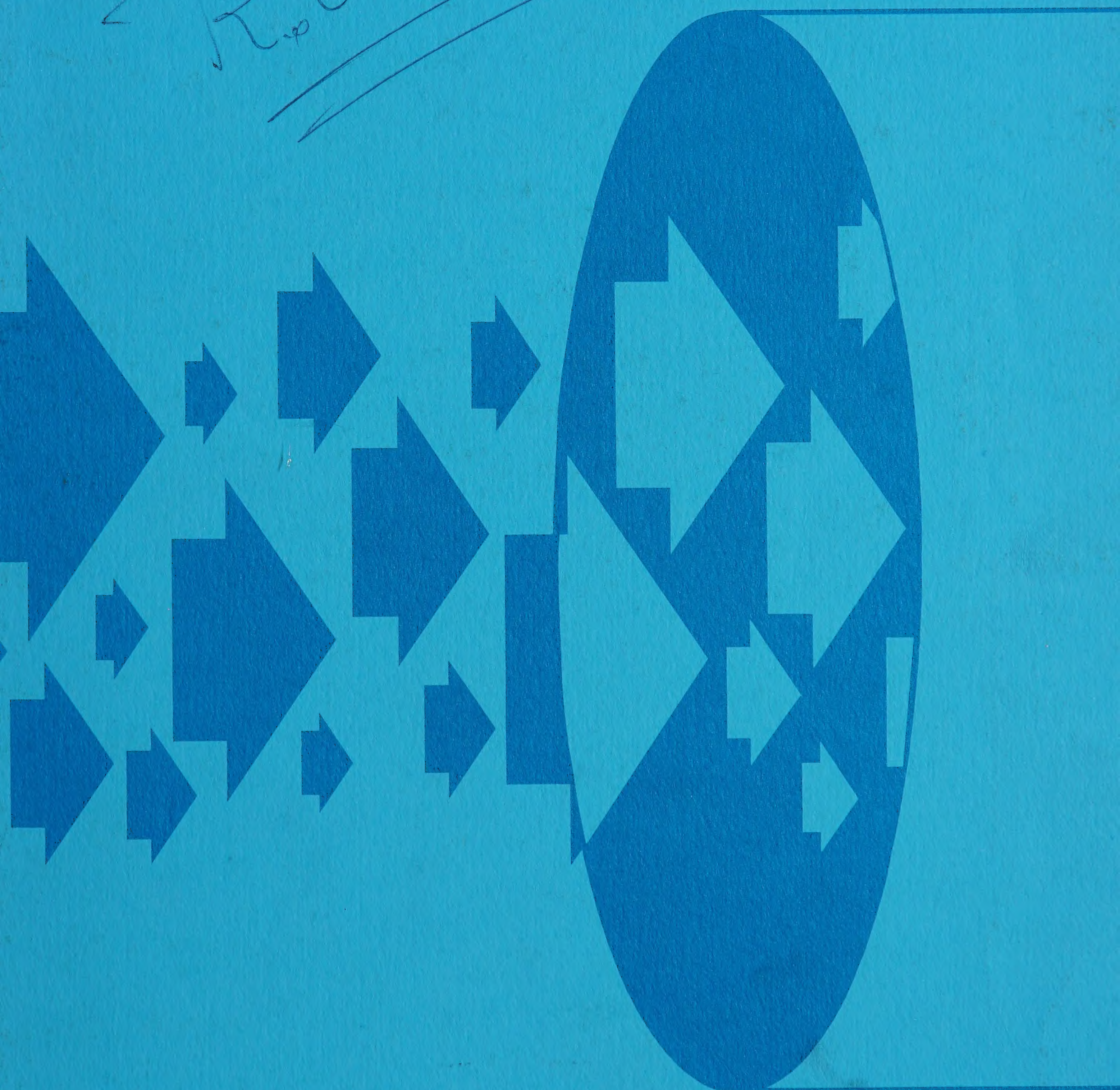

## ANNUAL MEETING

The Annual Meeting of the Shareholders of Westcoast Transmission Company Limited will be held in the Waddington Room, Hotel Vancouver, in the City of Vancouver, British Columbia, on Tuesday, April 22, 1975 at 10 a.m.

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# Results in brief

| FINANCIAL | 1974 | 1973 |
|---|---|---|
| Total Revenues | $266,600,000 | $168,764,000 |
| Net Income after Provision for Preferred Dividends | 25,172,000 | 24,001,000 |
| — per share | 2.90 | 2.80 |
| Cash Flow | 47,161,000 | 42,082,000 |
| — per share | 5.44 | 4.91 |
| Total Assets | 664,277,000 | 614,217,000 |
| Common Shareholders' Equity | 190,668,000 | 174,332,000 |
| — per share | 21.98 | 20.34 |
| Common Shares — weighted average | 8,673,100 | 8,571,769 |
| **OPERATING** | | |
| Total Gas Sales, Mcf | 362,257,000 | 412,156,000 |
| Daily Average Sales, Mcf | 992,000 | 1,129,000 |
| Maximum Day Sales, Mcf | 1,189,000 | 1,285,000 |

A significant proportion of the heat and energy requirements of the homes and industries of British Columbia and the U.S. Pacific Northwest is provided by natural gas — one of the cleanest and most efficient of the fossil fuels.

The responsibility for gathering and processing this gas for transmission to residential and industrial distributors lies with Westcoast Transmission Company Limited, a publicly-owned and federally-incorporated utility which began operations in 1957.

Those operations comprise a complex network of pipelines, metering stations, compressor stations and processing plants maintained by a staff of more than 500 men and women skilled in a variety of administrative and technical fields.

The Westcoast system, stretching from the Northwest and Yukon territories to the International Boundary near Vancouver, plays an important role in the social and economic development of the areas it serves.

# To the shareholders

The decision late in 1973 to establish the major portion of the Company's operations on a cost-of-service basis achieved the expected results in 1974 as Westcoast Transmission Company Limited recorded the best year in its history.

Aside from an improved financial performance, the new status also permitted the Company to avoid the controversy and uncertainty which arose as a result of disagreement among producers, the federal government and the government of British Columbia over the pricing, supply and taxation of natural gas.

Westcoast took significant steps with respect to its long term plans for expansion into additional activities related to the natural gas industry. The first was achieved through participation in Foothills Pipe Lines Ltd., which proposes to construct and operate the facilities needed to transport gas from northern territories to Canadian markets.

Another step was the purchase of additional shares of Westcoast Petroleum Ltd., in February, 1975, to increase the Company's ownership from 40% to 50%. The objective is to take a more direct role in shaping the policies of that oil and gas exploration company, with particular emphasis on concentrating more drilling activity in the gas prone areas contiguous to the Company's gas gathering system.

### IMPROVED EARNINGS

Income available to common shareholders after provision for preferred share dividends was $25,172,000 for the year or $2.90 per common share. This compares with net income in 1973 of $24,001,000 or $2.80 per common share. Cash flow increased to a record of $47,161,000 or $5.44 per share, from $42,082,000 or $4.91 per share in the previous year.

Dividends paid on common shares increased to a total of $11,275,000 or $1.30 per share from $6,429,000 or 75 cents per share paid in the previous year. The Board of Directors, at a meeting held February 4, 1975, approved a new policy of paying dividends on common shares on a quarterly basis, rather than semi-annually. A dividend of 45 cents per share will be paid for the first quarter of 1975.

The earnings represent a return of 13.8% on average common shareholders' equity. This return is not viewed by the Company as being entirely satisfactory. Although it compares favorably with other utilities and other sectors of the economy in what has been a period of general economic slowdown, steps are being taken to negotiate an increased rate of return on the rate base which will improve the return on equity.

### AN IMPORTANT REMINDER

As noted previously, the comparative figures for the years 1973 and 1974 do not fully reflect the extent of Westcoast's improved performance. Earnings in 1974 were based on a cost-of-service contract including an assured rate of return, whereas most of the 1973 earnings were based on the price and volume of gas delivered through the Company's system. An explanation of the method by which earnings are now determined is given in the Annual Review.

Under the contract negotiated late in 1973 with the British Columbia Petroleum Corporation, an agency of the B.C. government, the Petroleum Corporation has become the purchaser of natural gas produced by virtually all of the oil and gas companies operating in the province. The Petroleum Corporation sells this gas to the Company, which continues to be responsible for gathering, processing, transmitting and selling the gas to distributors in B.C. and to a transmission company in the United States. Westcoast also purchases gas directly from one B.C. producer as well as from producers in Alberta, the Yukon and the Northwest Territories, with these purchases forming part of the cost of service.

The implementation of this contract, together with the purchase by the British Columbia government in 1973 of a minority interest in Westcoast, has resulted at times in the misconception that the provincial government is involved in the management and operations of the Company. This is not the case, as has been stated on previous occasions by Westcoast officials. Neither does the contract have any bearing on earnings derived from the Company's various non-utility subsidiaries and other non-utility operations.

### EFFECTS OF TAX PROPOSALS

While the controversy which arose during 1974 over the pricing of gas exports and taxation of all natural gas production had no direct effect on the Company in terms of its financial position, both the public interest and Westcoast's own long-term interests demanded continuing concern and close attention to these matters.

Westcoast certainly welcomed the accord reached between the federal and B.C. governments in January with respect to tax sharing as a result of which producers were promised a rebate from the provincial government sufficient to offset the additional federal taxes.

Not fully clarified at the time this report was being prepared was the question of additional compensation to the producers as a means of prompting an all-out search for new sources of gas. However, indications were that the producers would receive some of the extra revenue generated by increased export prices likely to be established about mid-1975.

### FRONTIER GAS PROJECT

Of considerable interest and concern to the Company

during 1974 was the growing awareness that natural gas sources in the Beaufort Basin-Mackenzie Delta area of the Northwest Territories must be made available in the very near future if Canada is to continue to provide for its future domestic requirements and meet its existing export obligations.

As a result, Westcoast joined with The Alberta Gas Trunk Line Company Limited in a venture to transport northern gas to markets in Canada. The joint venture company is Foothills Pipe Lines Ltd., of which 20% of the outstanding shares are owned by Westcoast. Foothills will make formal application to the National Energy Board in May, 1975, for authorization to proceed with construction of the necessary facilities.

This frontier gas proposal is being presented to the National Energy Board as a practical alternative to an earlier plan submitted by Canadian Arctic Gas Pipeline Limited, a consortium of American and Canadian companies. Their plan differs markedly from that of Foothills, primarily in that it would carry Alaskan gas through Canada to the U.S. as well as transporting Beaufort-Mackenzie gas.

The Foothills proposal offers the double advantage of shorter timing and lower cost. It exploits the existing and substantial facilities of the participating pipeline companies and their experience in the field, together with the positive aspects of an all-Canadian effort. This affords the National Energy Board a choice of a much less expensive system — possibly less than half the cost of the CAGPL scheme — which would put Mackenzie Delta gas on stream in two years from the start of construction, while remaining capable of future expansion into Alaska if required. The Foothills project gives priority to Canadian needs and will not be subject to the jurisdiction of any United States regulatory body. The extent of the Company's involvement in this important undertaking was made apparent by the election of K. H. Gibson, Chairman of the Board and Chief Executive Officer of Westcoast, as Chairman of the Board of Foothills Pipe Lines Ltd.; and the appointment of R. M. Rutherford, Vice President, Corporate Development of Westcoast, as Vice President and Executive Assistant to the President of Foothills. E. C. Phillips, President of Westcoast, also serves Foothills as a Director and member of the Executive Committee.

## ASSESSMENT OF ENERGY REQUIREMENTS

Two major federal inquiries were announced during 1974 as a result of the growing need for a definitive assessment of Canada's long-term energy requirements, and the need for guidelines to govern the construction of processing and transportation facilities in the north.

KELLY H. GIBSON
*Chairman and Chief Executive Officer*

EDWIN C. PHILLIPS
*President*

Both of these inquiries will have a direct bearing upon Westcoast's future participation in frontier gas projects.

The National Energy Board opened a series of public hearings in major cities across Canada to hear submissions with respect to the expected availability of, and demand for, natural gas through 1995. The Company made a detailed written submission to the Board and Company representatives spoke to that submission at a hearing held in Vancouver in January, 1975.

The main thrust of the submission was to emphasize the urgent need for access to the Beaufort-Mackenzie gas reserves if Canada is to ensure that the nation's long-term requirements are met and that existing export contracts are honored for their full term. The Board is expected to report on its findings within a few months.

The federal government also announced an inquiry into the whole question of the social, environmental and economic impact of petroleum and natural gas pipeline projects in the Canadian North. This inquiry is being conducted by Mr. Thomas R. Berger of the Supreme Court of British Columbia, acting under the aegis of the federal Department of Indian Affairs and Northern Development. Central to Mr. Justice Berger's inquiry is consideration of the potential impact of pipeline proposals affecting the Mackenzie Delta and Mackenzie River Valley.

## THE YEAR AHEAD

The disruptions to the activity of oil and gas exploration companies in Westcoast's supply area which occurred during the latter part of 1974 will have an obvious effect on the Company's capital construction program in the near future. Thus, while a further increase in the level of earnings can be expected during 1975, attainment of full earnings potential will have to wait upon the capital expansion which will result from resumption of normal gas exploration and development activity.

In the meantime, the Company is proceeding with plans approved by the National Energy Board in 1974 for the connection of some additional gas supplies from northeastern British Columbia, and has recently negotiated an agreement for the purchase of additional supplies from sources in Alberta. These actions, together with whatever additional gas may accrue from resumed producer activity, will help to alleviate to some degree, by the winter of 1975-1976, the supply shortage suffered by the Company's customers.

The Company is moving toward a greater involvement in the area of exploration for development of natural gas and petroleum resources through its increased participation in Westcoast Petroleum Ltd., details of which are provided in the Annual Review. This is in line with the Company's continuing search for appropriate areas of expansion and diversification; and its intention to maintain a leadership role in the development of British Columbia's energy resources.

In all of these activities, the Company's major source of strength continues to be its employees. Their skill and experience in building and maintaining one of the most efficient natural gas processing and transmission systems in Canada will prove of inestimable value in meeting the opportunities which lie ahead. The Board of Directors and management would like to take this occasion to thank these men and women for their efforts.

The Board also wishes to record the appointment on April 23, 1974, of John Anderson, formerly Vice President, Supply and Sales, as Senior Vice President of the Company.

On behalf of the Board,

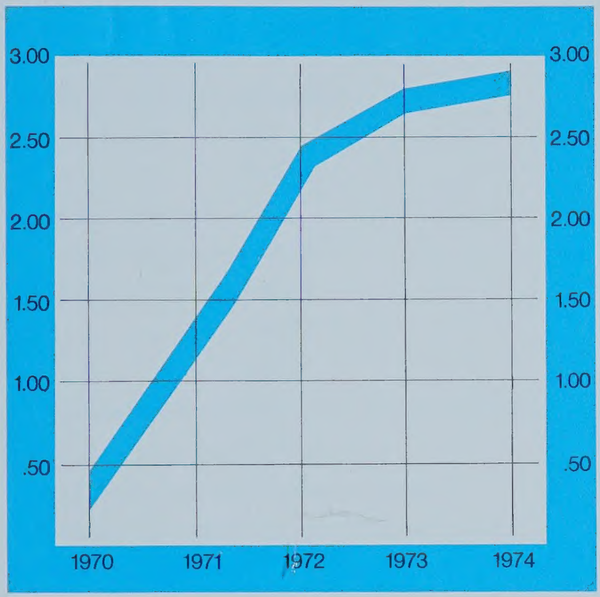
Kelly Gibson

KELLY H. GIBSON
*Chairman and Chief Executive Officer*

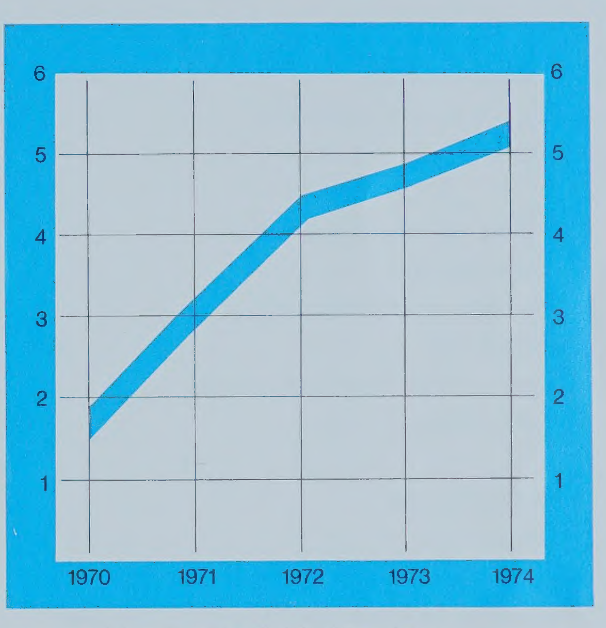
E. Phillips

EDWIN C. PHILLIPS
*President*

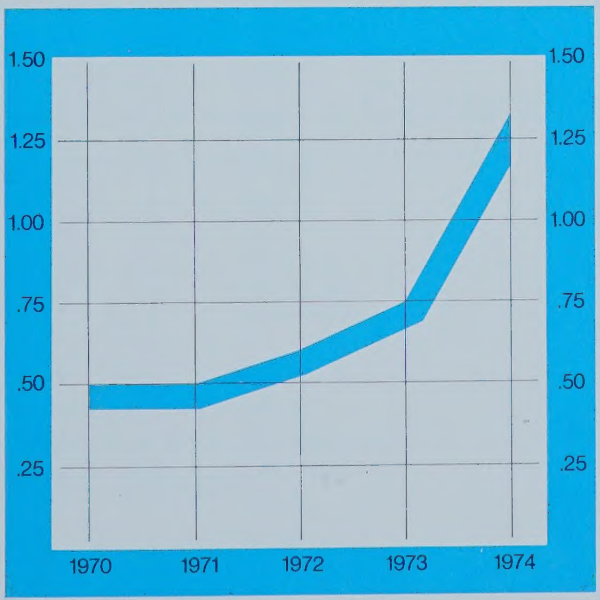
Vancouver, Canada.
March 7, 1975



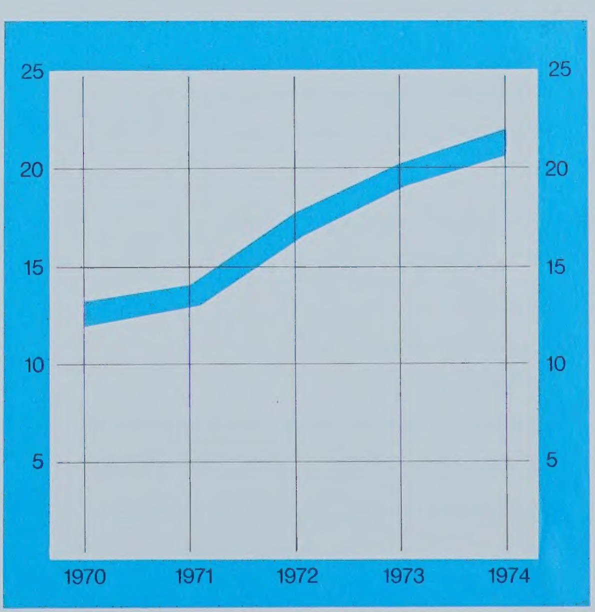
EARNINGS PER COMMON SHARE *(dollars)*



CASH FLOW PER COMMON SHARE *(dollars)*



DIVIDENDS PAID PER COMMON SHARE *(dollars)*



SHAREHOLDERS' EQUITY PER COMMON SHARE *(dollars)*

CONSOLIDATED STATEMENT OF **Operations**

*for the years ended December 31, 1974 and 1973*

| | 1974 | 1973 |
|---|---|---|
| | (in thousands) | |
| **Operating revenues:** | | |
| Gas and by-product sales | $ 266,105 | $ 168,263 |
| Other | 495 | 501 |
| | 266,600 | 168,764 |
| **Operating revenue deductions:** | | |
| Cost of gas sold | 157,890 | 73,974 |
| Operation and maintenance | 25,587 | 23,193 |
| Depreciation | 18,941 | 18,185 |
| Taxes — other than income taxes | 13,901 | 5,859 |
| Income taxes | 307 | 460 |
| | 216,626 | 121,671 |
| **Operating income** | 49,974 | 47,093 |
| **Other income:** | | |
| Equity in earnings of Westcoast Petroleum Ltd. | 407 | 1,300 |
| Allowance for funds used during construction | 933 | 948 |
| Investment and other income | 4,620 | 3,498 |
| | 55,934 | 52,839 |
| **Income deductions:** | | |
| Interest on long term debt | 27,202 | 27,601 |
| Debt discount, premium and expense | 478 | 461 |
| Other interest and amortization | 428 | 245 |
| | 28,108 | 28,307 |
| **Income before minority interest** | 27,826 | 24,532 |
| **Minority interest** | 1,095 | 531 |
| **Net income** | $ 26,731 | $ 24,001 |
| **For common shares:** | | |
| Net income | $ 26,731 | $ 24,001 |
| Provision for dividends on preferred shares | 1,559 | — |
| Net income applicable to common shares | $ 25,172 | $ 24,001 |
| Per common share — weighted average | $2.90 | $2.80 |
| — fully diluted | $2.48 | $2.41 |
| Dividends per common share | $1.30 | $ .75 |

*(The accompanying notes are an integral part of these financial statements)*

## CONSOLIDATED STATEMENT OF Retained earnings

*for the years ended December 31, 1974 and 1973*

| | 1974 | 1973 |
|---|---|---|
| | (in thousands) | |
| **Balance, beginning of year** | $ 69,536 | $ 51,964 |
| Net income | 26,731 | 24,001 |
| | 96,267 | 75,965 |
| Deduct dividends paid: | | |
| Preferred shares | 1,276 | — |
| Common shares | 11,275 | 6,429 |
| | 12,551 | 6,429 |
| | 83,716 | 69,536 |
| Transferred to appropriated retained earnings | 4,000 | — |
| Unappropriated retained earnings | 79,716 | 69,536 |
| Appropriated retained earnings (Note 4): | | |
| Reserve for redemption of preferred shares | 4,000 | — |
| **Balance, end of year** | $ 83,716 | $ 69,536 |

## CONSOLIDATED STATEMENT OF Contributed surplus

*for the years ended December 31, 1974 and 1973*

| | 1974 | 1973 |
|---|---|---|
| | (in thousands) | |
| **Balance, beginning of year** | $ 248 | $ 216 |
| Contributions in aid of construction | 5 | 32 |
| **Balance, end of year** | $ 253 | $ 248 |

*(The accompanying notes are an integral part of these financial statements)*

# Westcoast Transmission Company Limited

and Subsidiary Companies

*(Incorporated under the laws of Canada)*

| ASSETS | 1974 | 1973 |
|---|---|---|
| | (in thousands) | |
| **Plant, property and equipment — at cost (Note 1)** | $ 699,954 | $ 653,223 |
| Less accumulated depreciation | 149,212 | 131,826 |
| | 550,742 | 521,397 |
| **Investments:** | | |
| Westcoast Petroleum Ltd. | 28,159 | 27,751 |
| Other — at cost (market value 1974 — $988,000; 1973 — $1,277,000) | 1,320 | 1,391 |
| | 29,479 | 29,142 |
| **Current assets:** | | |
| Cash and temporary cash investments | 23,527 | 11,513 |
| Deposits with trustees for payment of principal and interest on long term debt | 5,108 | 5,044 |
| Accounts receivable | 34,951 | 26,060 |
| Materials and supplies — at cost | 4,311 | 3,354 |
| Line pack gas — at cost | 1,962 | 668 |
| Prepayments (Note 2) | 1,745 | 5,197 |
| | 71,604 | 51,836 |
| **Deferred charges:** | | |
| Unamortized debt discount, premium and expense | 6,446 | 6,924 |
| Unamortized cost of abandoned pipeline | 2,291 | 2,672 |
| Capital stock expense | 1,655 | 591 |
| Foothills Pipe Lines Ltd. | 180 | — |
| Other | 874 | 488 |
| | 11,446 | 10,675 |
| **Excess of cost of investment in subsidiary over book value at date of acquisition** | 1,006 | 1,167 |
| | $ 664,277 | $ 614,217 |

*(The accompanying notes are an integral part of these financial statements)*

CONSOLIDATED **Balance sheet**

*as at December 31, 1974 and 1973*

| SHAREHOLDERS' EQUITY | 1974 | 1973 |
|---|---|---|
| | (in thousands) | |
| **Capital stock** (Note 3): | | |
| Authorized — 2,000,000 preferred shares with par value of $50 each | | |
| — 25,000,000 common shares without nominal or par value | | |
| Issued — 800,000 8½% cumulative redeemable preferred shares series A | $ 40,000 | $ — |
| — 8,673,400 common shares (1973 — 8,575,977 common shares) | 106,699 | 104,548 |
| | 146,699 | 104,548 |
| **Contributed surplus** | 253 | 248 |
| **Retained earnings** | 83,716 | 69,536 |
| | 230,668 | 174,332 |
| LIABILITIES | | |
| **Long term debt** (Note 5) | 367,105 | 386,960 |
| **Current liabilities:** | | |
| Accounts payable | 30,781 | 18,031 |
| Sundry taxes | 987 | 582 |
| Interest on debt | 5,700 | 5,947 |
| Long term debt due within one year | 16,180 | 16,144 |
| | 53,648 | 40,704 |
| **Minority interest in subsidiary companies:** | | |
| Preferred shares | 5,269 | 5,269 |
| Common shares | 7,587 | 6,952 |
| | 12,856 | 12,221 |
| | $ 664,277 | $ 614,217 |

*On behalf of the Board:*

E. Phillips Director

John Anderson Director

CONSOLIDATED STATEMENT OF **Changes in financial position**

*for the years ended December 31, 1974 and 1973*

| | 1974 | 1973 |
|---|---|---|
| | (in thousands) | |
| **Funds derived from:** | | |
| Operations — | | |
| Income before minority interest | $ 27,826 | $ 24,532 |
| Add non cash items: | | |
| Depreciation and amortization | 19,265 | 18,389 |
| Equity in earnings of Westcoast Petroleum Ltd. | (407) | (1,300) |
| Other | 477 | 461 |
| | 47,161 | 42,082 |
| Common shares issued | 2,151 | 220 |
| Preferred shares issued (net of issuing costs) | 38,818 | — |
| Additional long term debt (net of financing costs) | — | 48,885 |
| | $ 88,130 | $ 91,187 |
| **Funds used for:** | | |
| Additions to plant, property and equipment | $ 47,904 | $ 36,392 |
| Long term debt retirement (net of exchange) | 17,705 | 34,137 |
| Long term debt converted to common shares | 2,151 | 1 |
| Dividends | 12,551 | 6,429 |
| Dividends paid by subsidiaries to minority interests | 469 | 469 |
| Sundry items | 526 | (34) |
| Working capital increase | 6,824 | 13,793 |
| | $ 88,130 | $ 91,187 |
| **Changes in working capital components:** | | |
| Cash and temporary cash investments | $ 12,014 | $ 11,065 |
| Deposits with trustees | 64 | (131) |
| Accounts receivable | 8,891 | 11,425 |
| Materials and supplies | 957 | 1,018 |
| Line pack gas | 1,294 | 370 |
| Prepayments | (3,452) | (1,111) |
| Accounts payable | (12,750) | (7,447) |
| Sundry taxes | (405) | (287) |
| Interest on debt | 247 | (683) |
| Long term debt due within one year | (36) | (426) |
| | $ 6,824 | $ 13,793 |

*(The accompanying notes are an integral part of these financial statements)*

# Summary of significant accounting policies

PRINCIPLES OF CONSOLIDATION:

The consolidated statements include the accounts of the Company and the following wholly-owned subsidiaries: Westcoast Transmission Company (Alberta) Ltd., Westcoast Transmission Housing Ltd., Westcoast Transmission Company, Inc., and Vancal Properties Ltd. The consolidated statements also include the following partially-owned subsidiaries: Gas Trunk Line of British Columbia Ltd. (99.9% owned), Saratoga Processing Company Limited (25% owned, including 100% of the voting shares) and Pacific Northern Gas Ltd. (26.7% owned, including 100% of the voting shares).

The Company owns 1,616,875 (40.2%) of the common shares of Westcoast Petroleum Ltd. and carries this investment at its equity in the underlying net assets and includes in income its share of that company's earnings. The Company also owns 600,000 (44.8%) of the preferred shares of Westcoast Petroleum Ltd. and records as investment income the dividends received of $900,000 for each of the years ended December 31, 1974 and 1973. The investment in Westcoast Petroleum Ltd. has a market value as at December 31, 1974 of $9,684,000 (December 31, 1973 — $19,536,000).

COST OF SERVICE:

Since November 1, 1973 the Company and its utility subsidiaries (Westcoast Transmission Company (Alberta) Ltd., Westcoast Transmission Housing Ltd., and Gas Trunk Line of British Columbia Ltd.) have operated under a cost of service arrangement with the British Columbia Petroleum Corporation. Under this arrangement the Company receives a 9½% rate of return on its utility rate base and is reimbursed for costs incurred in the operation of the facilities required for the gathering, processing and transportation of gas. The costs included in cost of service are operating, maintenance, and administrative expenses, depreciation of facilities and taxes including income taxes as they become payable. The difference between the operating revenue and the cost of service including the return on rate base is recorded as cost of gas.

As a result of operating on a cost of service basis, increases in the sales price of gas do not affect the net income of the Company. Although the National Energy Board recently directed that the sales price of gas exported to the United States be increased from approximately 61 cents to $1.00 per thousand cubic feet, the net income of the Company was not affected because the increase in the cost of gas, pursuant to the cost of service arrangement, was equal to the increase in the gas sales revenue of the Company.

REGULATION:

The Company is subject to the National Energy Board Act which, among other things, regulates accounting matters, export of gas, construction and operation of interprovincial and international gas pipe lines, and tolls charged by companies operating such pipe lines which include the prices at which they sell natural gas to purchasers in Canada and the United States.

TRANSLATION OF UNITED STATES FUNDS:

The Company's United States funds on deposit with banks and trustees and current liabilities payable in United States funds, with the exception of the current portion of the long term debt, have been translated to Canadian dollars at the exchange rates prevailing at the end of the fiscal period. Accounts receivable due in United States funds have been translated to Canadian dollars at the average exchange rates prevailing during the months in which the sales were made. Long term debt and capital stock sold in United States funds have been translated at the exchange rates prevailing at the respective dates of sale.

DEPRECIATION:

Depreciation is calculated using straight line rates determined on the economic and physical life of the assets in service at the commencement of the fiscal period.

ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION:

An allowance for funds used during construction was charged to plant, property and equipment at a rate of 10% for the year ended December 31, 1974 (for the year ended December 31, 1973 — 9½%).

INCOME TAXES:

The companies provide for income taxes on the taxes payable basis under which no provision is made for income taxes deferred through claiming capital cost and other allowances in excess of amounts recorded in the accounts. Under the terms of the Company's gas purchase contract with the British Columbia Petroleum Corporation, payments on account of income taxes are recoverable as a part of cost of service. If the tax allocation basis had been used to provide for income taxes, the provision for the year ended December 31, 1974 would have been $13,800,000 (for the year ended December 31, 1973 — $11,000,000) and the accumulated provision to December 31, 1974 would have been $61,700,000 (to December 31, 1973 — $47,900,000).

PREPAID GAS:

As volumes of gas are delivered that relate to previous prepayments, a proportionate share of the prepayments and related deferred interest is charged to operations as gas purchase costs.

DEBT DISCOUNT, PREMIUM AND EXPENSE:

Debt discount, premium and expense is being amortized over the terms of the respective issues.

UNRECOVERED COST OF ABANDONED PIPELINE:

Unrecovered costs of an abandoned gathering pipeline are being written off over the ten year period ending December 31, 1980.

CAPITAL STOCK EXPENSE:

Capital stock expense includes the unamortized portion of issue costs for the 8½% Cumulative Redeemable Preferred Shares Series A. As shareholders have the right to tender shares to the Company for redemption at par value during 1979 the Company is amortizing the issue costs over the period ending December 31, 1979.

FOOTHILLS PIPE LINES LTD:

The Company owns 20% of the outstanding shares of Foothills Pipe Lines Ltd., a company that is planning to transport natural gas from the Beaufort Basin-MacKenzie Delta area to markets in various parts of Canada. The Company's ownership in Foothills is recorded as an investment and advances made to Foothills are recorded as deferred charges until such time as an agreement is reached regarding the disposition of these costs.

EXCESS OF COST OF INVESTMENT IN SUBSIDIARY:

The excess of the cost of investment in Gas Trunk Line of British Columbia Ltd. over the net book value at date of acquisition is being amortized over the remaining life of the Gas Transportation Contract between the Company and Gas Trunk which expires in December, 1981.

PENSION PLAN:

The Company and its subsidiaries have a non-contributory pension plan covering substantially all employees and contribute amounts necessary to provide normal retirement income to the plan for the participants. The companies contributed $537,050 to the plan during the year ended December 31, 1974 (during the year ended December 31, 1973 — $419,046).

EARNINGS PER SHARE:

Fully diluted earnings per share calculations assume the conversion of the convertible bonds, debentures and subordinate debentures; the exercise of share purchase options; and the exercise of share purchase warrants. Funds derived from the exercise of options and warrants were assumed to have been invested to produce an annual return of 9½%.

# Notes TO THE CONSOLIDATED FINANCIAL STATEMENTS

*December 31, 1974 and 1973*

1. PLANT, PROPERTY AND EQUIPMENT:

| | 1974 | 1973 |
|---|---|---|
| | *(in thousands)* | |
| Gathering plant | $112,671 | $ 96,469 |
| Products extraction plant | 90,952 | 90,091 |
| Transmission plant | 448,352 | 440,993 |
| Distribution plant | 4,957 | 4,561 |
| Miscellaneous plant and equipment | 20,621 | 19,253 |
| | 677,553 | 651,367 |
| Construction in progress | 22,401 | 1,856 |
| | $699,954 | $653,223 |

2. PREPAYMENTS:

Included in prepayments at December 31, 1974 is $1,217,000 (December 31, 1973 — $5,086,000) representing prepayment against future gas deliveries and deferred interest related to these payments.

3. CAPITAL STOCK:

(a) During 1974 the Company issued:

(i) 800,000 8½ % Cumulative Redeemable Preferred Shares Series A with a par value of $50 each, increasing capital stock by $40,000,000. The preferred shares are redeemable at the option of the Company after December 31, 1979 at various prices from $54.25 to $50.50. Also, the shares may be tendered, at the option of the shareholder, to the Company for redemption at par value during specified periods in 1979 or 1984.

(ii) 1,200 common shares on conversion of 5½ % Subordinate Debentures, Series C at a conversion rate of $29.15 (U.S.) per share, increasing capital stock by $34,008.

(iii) 96,223 common shares on conversion of 7½ % Convertible Debentures, First Series at a conversion rate of $22.00 per share, increasing capital stock by $2,116,906.

(b) During 1973 the Company issued:

(i) 13,000 common shares for a cash consideration of $219,375 upon exercise of employee stock options.

(ii) 34 common shares on conversion of 5¾ % First Mortgage Pipe Line Bonds Convertible Series E at a conversion rate of $29.14 per share, increasing capital stock by $991.

(c) Common share reservations and options are as follows:

(i) Included in the common shares reserved for outstanding options, as set out below, are 29,000 common shares optioned to directors and officers (December 31, 1973 — 19,000 common shares).

| Expiry Date | Option Price Per Share | Number of Shares at December 31, 1974 | 1973 |
|---|---|---|---|
| July 16, 1980 | $16.875 | 4,000 | 4,000 |
| October 16, 1983 | $15.50 | 15,000 | 15,000 |
| July 29, 1984 | $19.375 | 15,000 | — |

(ii) 1,375 common shares are reserved for options which have not yet been allocated (December 31, 1973 — 16,375 common shares).

(iii) 852,936 common shares are reserved for conversion of the 5½ % Subordinate Debentures, Series C (December 31, 1973 — 854,136 common shares).

(iv) 1,405,838 common shares are reserved for the conversion of the First Mortgage Pipe Line Bonds, 5¾ % Convertible Series D and Series E (December 31, 1973 — 1,571,004 common shares).

(v) 2,246,186 common shares are reserved for conversion of the 7½ % Convertible Debentures, First Series (December 31, 1973 — 2,342,409 common shares).

(vi) 1,800,000 common shares are reserved for issuance upon the exercising of Share Purchase Warrants outstanding (December 31, 1973 — 1,800,000 common shares). The warrants may be exercised at $26 per share to May 15, 1976 and thereafter at $29 per share until May 15, 1981.

(d) Dividend restriction:

The First Mortgage and the indentures relating to the Company's long term debt and the 8½ %

Cumulative Redeemable Preferred Shares Series A contain restrictions as to the declaration or payment of dividends on common shares (other than stock dividends). Under the most restrictive provision the amount available for dividends at December 31, 1974 was $37,000,000 (December 31, 1973 — $30,500,000).

4. APPROPRIATED RETAINED EARNINGS:
The Company is required to provide for a Retraction Purchase Fund through an appropriation of retained earnings at an annual rate of 20% of the aggregate par value of the outstanding 8½% Cumulative Redeemable Preferred Shares Series A until July 1, 1979 when the appropriation will amount to 100% of the outstanding shares.

5. LONG TERM DEBT:

| | 1974 United States Dollars | 1974 Canadian Dollars *(in thousands)* | 1973 Canadian Dollars |
|---|---|---|---|
| Westcoast Transmission Company Limited | | | |
| First Mortgage Pipe Line Bonds | | | |
| 4⅜% Series A, due 1977 | $18,100 | $ 17,522 | $ 23,233 |
| 6% Series C, due 1980 | 1,530 | 1,645 | 1,925 |
| 5¾% Convertible Series D, due 1984 (a) | | 30,651 | 33,707 |
| 5¾% Convertible Series E, due 1984 (a) | | 11,735 | 12,889 |
| 7% Series F, due 1988 | 55,275 | 59,563 | 63,961 |
| 8% Series G, due 1991 | | 90,000 | 90,000 |
| Debentures | | | |
| 7½% Convertible, First Series, due 1991 (b) | | 49,416 | 51,533 |
| 8½% Debentures, 1993 Series, due 1993 | | 50,000 | 50,000 |
| Subordinate Debentures | | | |
| 5½% Series A, due 1988 | 17,835 | 17,753 | 18,365 |
| Less purchased in advance of repayment requirements | (793) | (789) | (681) |
| 5½% Series B due 1988 | 2,697 | 2,584 | 2,673 |
| Less purchased in advance of repayment requirements | (63) | (60) | (98) |
| 5½% Series C, due 1988 (c) | 24,863 | 23,900 | 23,933 |
| Gas Trunk Line of British Columbia Ltd. | | | |
| First Mortgage Sinking Fund Bonds | | | |
| 6% Series A, due 1979 | 2,324 | 2,369 | 2,854 |
| Subordinate Debentures | | | |
| 6% Series A, due 1981 | | 1,755 | 1,960 |
| Less purchased in advance of repayment requirements | | (15) | (31) |
| Westcoast Transmission Housing Ltd. | | | |
| Housing Mortgages, 7% and 8¾% | | 592 | 602 |
| Vancal Properties Ltd. | | | |
| 7½% Mortgage Notes, due 1994 | 4,584 | 4,918 | 5,021 |
| Saratoga Processing Company Limited | | | |
| First Mortgage Sinking Fund Bonds | | | |
| 6¼% Series A, due 1979 | 1,850 | 1,901 | 2,312 |
| Subordinate Debentures | | | |
| 6% Series A, due 1981 | | 900 | 960 |
| Less purchased in advance of repayment requirements | | (34) | (28) |
| 8½% Promissory Note, due 1981 | | 260 | 300 |
| Pacific Northern Gas Ltd. | | | |
| First Mortgage Pipe Line Bonds | | | |
| 7¾% Series A, due 1988 | 12,950 | 13,921 | 14,916 |
| 9¼% Series B, due 1991 (d) | 2,775 | 2,798 | 2,798 |
| | | 383,285 | 403,104 |
| Deduct long term debt due within one year shown as a current liability | | 16,180 | 16,144 |
| | | $367,105 | $386,960 |

Long term debt payments required in the five years ending December 31 are:
1975 — $16,180,000; 1976 — $17,650,000; 1977 — $21,966,000; 1978 — $16,603,000; 1979 — $20,766,000.

(a) Convertible into common shares at various rates from $30.15 to $31.80 per share until November 1, 1976.

(b) Convertible into common shares at $22 per share until December 31, 1975 and thereafter at $25 per share until December 31, 1980.

(c) Convertible into common shares at $29.15 (U.S.) per share to July 15, 1978.

(d) Includes detachable warrants to purchase 50,000 Class A common shares of Pacific Northern at $5 per share until maturity.

The Company has a revolving credit arrangement with a limit of $50,000,000 and will be charged interest at the bank's prime rate plus 1% on any amount borrowed. The Company's First Mortgage Pipe Line Bonds are secured by a specific first mortgage of substantially all of the Company's fixed assets, its gas purchase contracts, its gas sales contracts and 403,600 preferred shares of Westcoast Petroleum Ltd. and by a first floating charge on its other assets and its undertakings.

6. REMUNERATION OF DIRECTORS AND OFFICERS OF THE COMPANY:

For the year ended December 31, 1974

(a) Seven directors in their capacity as directors were paid $37,950 (for the year ended December 31, 1973 seven directors were paid $35,550).

(b) Ten officers in their capacity as officers, including three past officers, were paid $450,637 (for the year ended December 31, 1973 eleven officers, including four past officers were paid $405,931).

(c) Four officers, including one past officer, served as directors (for the year ended December 31, 1973 four officers, including one past officer, served as directors).

7. SUBSEQUENT EVENTS:

(a) On February 3, 1975 the Company purchased 400,675 common shares of Westcoast Petroleum Ltd. for $4.50 per share. This increases the Company's ownership in Westcoast Petroleum Ltd. from 1,616,875 common shares (40.2%) to 2,017,550 common shares (50.1%).

(b) On February 4, 1975 the Company declared a dividend of 45 cents per common share, payable on March 31, 1975 to shareholders of record on February 28, 1975.

# Auditors' report

TO THE SHAREHOLDERS OF WESTCOAST TRANSMISSION COMPANY LIMITED:

We have examined the consolidated balance sheet of Westcoast Transmission Company Limited and its subsidiaries as at December 31, 1974 and 1973 and the consolidated statements of operations, retained earnings, contributed surplus and changes in financial position for the years then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1974 and 1973 and the results of their operations and the changes in their financial position for the years then ended, in accordance with generally accepted accounting principles applied on a consistent basis during the period.

In accordance with the provisions of the Companies Act (British Columbia) we report that due provision has been made for minority interests in these financial statements.

Vancouver, Canada.
February 13, 1975.

CLARKSON, GORDON & CO.,
*Chartered Accountants.*

# Annual Review

## GAS SALES

A total of 362 billion cubic feet of natural gas was delivered through the Company's system during 1974, 12% less than in the previous year. On a daily basis, deliveries averaged 992 million cubic feet compared with 1,129 million cubic feet in 1973.

The decline in deliveries resulted from a continuing shortage in supplies from the producing fields, where some wells were affected by a high level of water production and others by an unusually severe freeze-up at year's end.

These shortages contributed to a decrease of 10.7% in sales to the Company's export customer, Northwest Pipeline Corporation. Deliveries to this customer totalled 239 billion cubic feet for a daily average of 654 million cubic feet. In the previous year, export sales were 267 billion cubic feet for a daily average of 733 million cubic feet.

From left: *C. D. Williams, General Counsel and Assistant Secretary; A. J. Green, Group Manager Supply and Sales; John Anderson, Senior Vice President.*

Deliveries to British Columbia Hydro and Power Authority were affected by its decision to cut back voluntarily on the amount of natural gas burned in its Burrard Thermal Generating Plant during 1974, to make that gas available for export. However, Hydro's sales to their firm and interruptible customers were up 4.8% over last year.

Requirements of the Company's other Canadian customers remained fairly constant. Sales to Inland Natural Gas Company Limited were down 3.5% due to the prolonged strike at the plant of a major industrial customer. Deliveries to Pacific Northern Gas Ltd. increased by 7.1%, despite a slowdown in the forest industry which provides the major portion of PNG's market.

## GAS SUPPLY

A total of 143 wells were drilled in British Columbia during 1974, of which 50 found gas and six found oil. In the previous year, 166 wells were drilled resulting in 53 gas and nine oil wells.

Included in the wells drilled in 1974 were 70 exploratory wells with 22 being natural gas and two oil discoveries. This compared with 75 exploratory wells in 1973, 21 of them gas and one oil discovery.

In the current winter drilling season a total of 37 wells were drilled in British Columbia up to January 31, 1975, compared with 62 wells in the same period of the drilling season of 1973-74.

Included in the 1974-75 period were 11 exploratory wells with two being natural gas discoveries and no oil discoveries. This compared with 28 exploratory wells in the 1973-74 period, 11 of which found gas and no oil discoveries.

The unforeseen curtailment of 215 million cubic feet per day from the fields of Amoco Canada Petroleum Company Ltd. at Beaver River and Pointed Mountain, because of an increase in water production from the gas wells, continued through 1974. Despite the drilling of two new wells and remedial work on the seven existing wells in these fields, output did not increase. Amoco Canada has advised that the shortage will likely continue in future years.

A number of the major gas fields in the Company's supply area have been producing for ten to fifteen years and are now experiencing reduced deliverability, thus adding to the shortage in gas supply.

Some additional supplies were obtained in 1974 from other fields and some supplementary volumes of Alberta gas were received through the co-operation of Alberta and Southern Gas Co. Ltd., but the peak day shortage in deliveries was 277 million cubic feet. The entire shortage was borne by the export customer. Canadian customers

*J. E. Johnson, Vice President, Operations and Engineering (right) and K. Awrey, Chief Inspector.*

have been advised that they will continue to receive volumes of gas at a level sufficient to meet their requirements up to their nominated contract demands.

Although the Company completed some new gathering facilities during 1974 and is proceeding with construction of additional gathering pipelines this year, the gas supply shortage is expected to continue until producers receive sufficient economic incentive to prompt a high level of exploration and development and to maintain deliverability at the highest rate possible.

### 1974 CONSTRUCTION

The Company completed construction of a new gas gathering line early in 1974 to connect additional fields in the Petitot River-Cabin-Louise gas supply areas northeast of Fort Nelson and gas is now being received from these areas. In addition, with the co-operation of several producers, some existing capped natural gas wells were connected to the gathering system to further augment the supply. In total, 78 miles of gathering lines were constructed during 1974 at a cost of $11.4 million.

The program included an underwater crossing near Hope in the Fraser Valley, where 3,700 feet of 36-inch pipeline were laid under the Fraser River at a cost of $1.4 million.

Another project undertaken during the year involved the expenditure of $5.8 million to construct a new booster station, at the Fort Nelson processing plant, which will go into operation later this year. More than $5 million was invested in the installation of a new 25,000 h.p. gas turbine compressor at Station 3 north of Prince George, and the installation of a 12,500 h.p. unit which was transferred from Station 3 to Station 2 west of Chetwynd. At the Laprise booster station, a 2,000 h.p. compressor and increased power-generating capacity were provided at a cost of $1.5 million.

### 1975 CONSTRUCTION

In 1975, 27 miles of gathering lines will be constructed in the Fort St. John supply area at a cost of $2.5 million. While preliminary negotiations with producers indicated that an additional 125 million cubic feet of gas per day would be available from this area, this gas may not be connected until there is some clarification of the question of additional compensation to be paid to the producers. Similarly, the additional 23 million cubic feet per day forecast from the Fort Nelson supply area may not be available.

The Company has completed contractual arrangements to purchase up to 58 million cubic feet per day of processed natural gas in Alberta from Pan-Alberta Gas Ltd. for transportation and resale to Northwest Pipeline Corporation in the United States. All required regulatory authorizations have been received in Canada and the United States. Construction time for the necessary facilities to receive and transport this gas will delay the commencement of deliveries until the fall of 1975. This supplementary volume of gas will be available only until April, 1977. Construction of the Company's portion of the required facilities, a 4,000 h.p. booster station, will cost $3 million.

Scheduled for completion in August, 1975 is the $15 million sulphur recovery plant adjoining the Fort Nelson processing plant and a $500,000 liquid-waste treatment facility at that location. Also near completion is the Siphon booster station, located northeast of Fort St. John.

From left: *D. O. Hunter, Assistant Treasurer; J. May, Assistant Comptroller; L. J. Smith, Treasurer and Comptroller.*

A total of $4 million will be invested in this station which will utilize two, 2,000 h.p. compressor units transferred from Station 2.

## EMPLOYEES

An actuarial valuation of the Company's pension fund and obligations was completed as at January 1, 1974. The report indicated no unfunded liabilities as of that date and recommended the amount of Company contributions required to cover the cost of benefits accruing after January 1, 1974. This recommended level of contributions has been maintained.

At the end of 1974, 19% of the employees had served fifteen years or more; 11%, ten to fifteen years of service; 24%, five to ten years service.

## COST-OF-SERVICE CONTRACT

The fiscal year 1974 was the first full year in which the Company operated on the basis of an assured return on investment in its utility facilities which is its main source of earnings.

Under an agreement with the British Columbia Petroleum Corporation, a provincial Crown agency, virtually all of the natural gas produced in B.C. is sold by the oil and gas producers to the Petroleum Corporation. The Corporation, in turn, sells this gas to the Company. Westcoast also maintains separate gas purchase contracts with one B.C. producer and with producers in Alberta, the Yukon and the Northwest Territories.

This gas is re-sold by the Company to distributors in British Columbia and the Northwest Pipeline Corporation in the United States at prices determined or approved by the National Energy Board, an agency of the federal government. From the resultant sales revenue, Westcoast retains the costs incurred in purchasing gas from sources other than the Petroleum Corporation; and the costs of gathering, processing, transmitting and selling all gas moved through its system. These costs, often referred to as "cost-of-service", include operating, maintenance and administrative expenses, depreciation of facilities, taxes including income taxes, plus an amount equal to 9.5% return on its rate base. The rate base is the depreciated cost of the Company's gas plant and pipeline facilities plus an allowance for working capital. The balance of the sales revenue remaining after deducting all these costs is remitted to the Petroleum Corporation as payment for the gas purchased. By this means of deducting the cost-of-service from revenue every month, the Company's return is automatically maintained without any regulatory lag.

Because net income is now being generated by an assured return on rate base, the after-tax profits of the Company are no longer directly affected by fluctuations in the price or volume of gas delivered through the pipeline system. However, any enlargement of the Company's facilities will have an upward impact on the rate base; and the rate of return on that investment is subject to renegotiation, thus ensuring an adequate return to shareholders.

## FINANCIAL

The revenue received during 1974 from the sale of gas and associated products increased by almost 58% to $266,105,000 from the 1973 total of $168,263,000. The increase was the result of substantial price increases on both Canadian and United States sales implemented in the latter part of 1973, and a further increase imposed on the export customer by the National Energy Board in November, 1974.

Operating income in 1974 was $49,974,000, an increase of $2,881,000 over 1973. Income from non-utility operations not affected by the cost-of-service contract was up by $229,000 to $5,027,000. The increase in non-utility income resulted from higher returns realized on short term investments.

Allowance for funds used during construction was virtually unchanged from 1973 at $933,000: Income deductions which consist largely of financial charges were down marginally to $28,108,000.

Net income applicable to common shares, after provision for preferred share dividends, increased to $25,172,000 or $2.90 per share from the 1973 level of $24,001,000 or $2.80 per share. The deduction for preferred share dividends was $1,559,000.

In July, 1974, the Company made its first issue of preferred shares — a $40 million issue of 8½% cumulative redeemable preferred shares. This was an exclusively Canadian financing and was fully subscribed by Canadian investors. The issue has a unique feature whereby the holders of the preferred shares have the option to tender their shares to the Company after the fifth year (1979) and after the tenth year (1984) when the Company will redeem them at their face value.

## SUBSIDIARY COMPANIES

Early in February, 1975, the Company increased its holdings in the common shares of Westcoast Petroleum Ltd. from 40.2% to 50.1% through the purchase of an additional 400,675 shares of that company. The Company also owns 44.8% of the preferred shares of Westcoast Petroleum. This company is engaged in the exploration for, and production of crude oil and natural gas and owns and operates a 505-mile, 12½-inch oil pipeline in north-eastern British Columbia. It has interests in 12,307,000 gross acres (4,015,000 net) of prospective oil and gas lands in western Canada, the Northwest Territories and the Arctic Islands. Westcoast Petroleum's exploration and development program during 1974 resulted in the completion of 12 oil and gas wells. Throughput of its oil pipeline averaged 47,000 barrels per day of crude oil and other liquids, down from 54,500 barrels the previous year. The reduction was due to normal decline in production in certain British Columbia oil fields.

Net income applicable to common shareholders, after provision for preferred dividends of $2,010,000 in each year, amounted to $1,094,000 or 27 cents per share in 1974 compared to $653,000 or 16 cents per share in 1973, which has been restated to reflect the results as if Westcoast Petroleum had recorded deferred taxes in that year.

Pacific Northern Gas Ltd., is a gas transmission and distribution company in west-central British Columbia. The Company owns 26.7% of Pacific Northern including all of the voting shares. It had a sales volume of 12.88 billion cubic feet during 1974 compared to 11.96 billion cubic feet in 1973. Total sales revenue was $10,477,000, compared to $6,779,000 the previous year. Net earnings applicable to common shares, after provision for preferred dividends of $337,500 in each

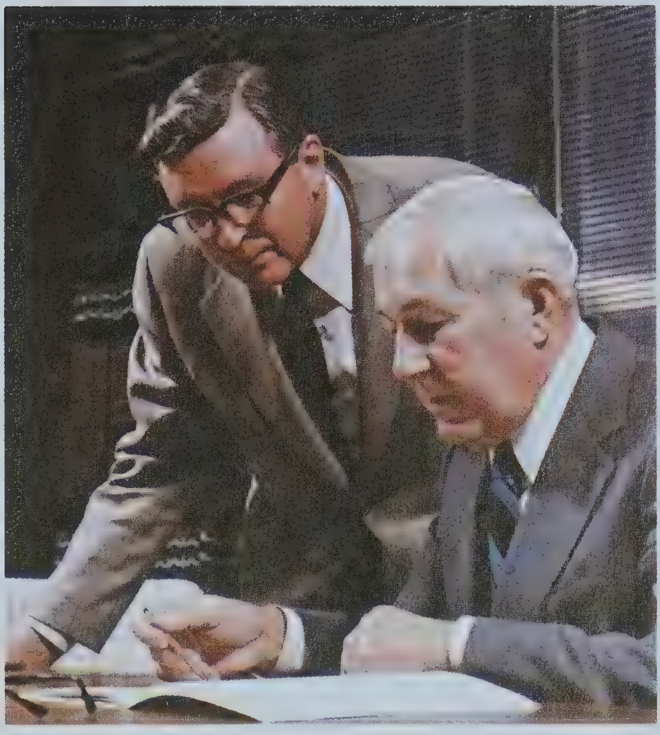
year, amounted to $773,055 or 64 cents per share in 1974 compared to $62,889 or five cents per share in 1973.

Saratoga Processing Company Limited owns and operates a gas gathering and processing system and a sulphur extraction plant in southwest Alberta. The Company owns 25% of Saratoga Processing including all of the voting shares. Net income for the year was $254,000 compared to $236,000 in 1973.

## BERGER INQUIRY

Of major interest to the Company at this time is the inquiry being conducted by the federal government into the potential social, environmental and economic impact of the natural gas pipeline proposed for the Mackenzie Valley of the Northwest Territories.

Public hearings opened in Yellowknife on March 3, 1975 under Mr. Justice Thomas R. Berger of the Supreme Court of British Columbia, acting in this instance as a federal Commissioner under the aegis of the Department of Indian Affairs and Northern Development. The inquiry, authorized by the Parliament of Canada, will ultimately produce recommendations to govern the construction and operation of any natural gas pipeline built to bring gas from the Mackenzie Delta to markets in Canada and the United States. These recommendations will also have a direct impact on the possible future development of an oil pipeline, hydro-electric transmission lines, telecommunications facilities and road and rail transportation in this frontier region.



*R. M. Rutherford, Vice President, Corporate Development (left) and Kelly H. Gibson, Chairman and Chief Executive Officer.*

## FOOTHILLS PIPE LINES LTD.

As noted in the Letter to Shareholders, Foothills Pipe Lines Ltd. has proposed a pipeline system, for the transport of Beaufort Basin-Mackenzie Delta natural gas, which the participants regard as being superior to the alternative being presented by The Canadian Arctic Gas Pipeline Ltd. (CAGPL).

With respect to physical facilities, Foothills would construct a 42-inch diameter pipeline extending from the Beaufort Basin to the northern border of Alberta. The existing pipelines owned by Westcoast and The Alberta Gas Trunk Line Company Limited would be extended to connect with the Foothills pipeline. This exploitation of existing facilities is in contrast to the CAGPL proposal which would necessitate the construction of a new 48-inch line from Alaska and the Beaufort Basin extending 1,743 miles along all new right-of-way to southeastern Alberta.

The estimated capital cost of the Foothills pipeline and additions to existing transmission systems reaching all the way to Montreal is $4 billion. The capital cost of the CAGPL scheme to deliver gas the same distance could be double the cost of Foothills. The lower cost of this project was the principal reason Foothills decided to offer this alternative to the public of Canada at a time of severe inflation and shortages of materials and manpower. The many billions of dollars saved are urgently required by other worthy energy projects in Canada — oil sands in Alberta, nuclear plants in Ontario and power projects in Quebec.

Timing is an important consideration given the clear indication that Beaufort-Mackenzie gas will be required by 1979/80 to supplement existing Canadian supplies if all Canadian requirements are to be met. Foothills proposes to begin construction in the fall of 1977 with the initial volumes of gas moving during 1979. Foothills is able to formulate this schedule because, being located entirely within Canada, it needs no foreign authorization. The CAGPL project, however, requires authorization from Canadian regulatory authorities and from a multiplicity of state and federal agencies in the United States, thereby posing the certainty of lengthy delays.

Westcoast realizes there are many conflicting views with respect to the transportation of northern gas. However, given the pressing need to bring that gas south at the earliest possible date, the most logical and economical method would be that proposed by Foothills. Stated in its simplest terms, this project would require only that the two companies which now gather almost all the gas used in Canada from fields in the Yukon, the Northwest Territories, British Columbia and Alberta, join their two gathering systems at the northern end and connect with the new pipeline at the Alberta-Northwest Territories border. At best, a proposal has been advanced that will become an actual pipeline operation; at least, an alternative has been offered for the consideration of the Canadian public which is a substantial contribution to the important national debate on energy.

# Consolidated statement of operations

| | 1974 | 1973 | 1972 | 1971 | 1970 |
|---|---|---|---|---|---|
| | | For the Years Ended December 31 | | | 9 Months Ended Dec. 31, |
| | | | (in thousands) | | |
| Revenue: | | | | | |
| Operating revenue | $266,600 | $168,764 | $139,492 | $101,575 | $ 69,684 |
| Investment and other income | 5,027 | 4,798 | 3,622 | 3,981 | 1,504 |
| Allowance for funds used during construction | 933 | 948 | 2,201 | 4,649 | 828 |
| | 272,560 | 174,510 | 145,315 | 110,205 | 72,016 |
| Deduct: | | | | | |
| Operating revenue deductions | 216,626 | 121,671 | 96,682 | 74,910 | 53,430 |
| Income deductions | 428 | 245 | 322 | 1,104 | 195 |
| Minority interest | 1,095 | 531 | 808 | 815 | 691 |
| | 218,149 | 122,447 | 97,812 | 76,829 | 54,316 |
| Income before fixed charges and special items | 54,411 | 52,063 | 47,503 | 33,376 | 17,700 |
| Fixed charges: | | | | | |
| Interest on debt | 27,202 | 27,601 | 25,575 | 24,566 | 14,406 |
| Debt discount, premium and expense | 478 | 461 | 614 | 394 | 191 |
| | 27,680 | 28,062 | 26,189 | 24,960 | 14,597 |
| Income before special items | 26,731 | 24,001 | 21,314 | 8,416 | 3,103 |
| Loss on sale of subsidiary | — | — | — | (78) | — |
| Loss on investment | — | — | (470) | — | — |
| Gain on amalgamation of affiliated companies | — | — | — | 892 | — |
| Net income | 26,731 | 24,001 | 20,844 | 9,230 | 3,103 |
| Provision for dividends on preferred shares | 1,559 | — | — | — | — |
| Net income applicable to common shares | $ 25,172 | $ 24,001 | $ 20,844 | $ 9,230 | $ 3,103 |
| Common shares (weighted average) | 8,673 | 8,572 | 8,459 | 6,731 | 6,701 |
| Earnings per common share (weighted average) | $2.90 | $2.80 | $2.46 | $1.37 | $ .46 |

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE CONSOLIDATED STATEMENT OF OPERATIONS

### Year Ended December 31, 1974

Substantial increases in operating revenue and revenue deductions over 1973 resulted from increases in prices charged to both domestic and export customers. The net income of the Company, however, was not affected as the Company's income from utility operations is based on a cost-of-service contract.

### Year Ended December 31, 1973

The increase in sales over 1972 resulted primarily from additional export sales, higher domestic volumes and higher sales prices in the latter part of the year. The increase in net income over 1972 resulted primarily from the increased sales volumes.

### Year Ended December 31, 1972

The increase in sales revenue and net income over the previous year was attributable to additional volumes sold under a new export sales contract, as well as an increase in the sales price of all export volumes. Increases in outstanding shares resulted from a rights issue of 1,400,000 shares in January, 1972 and from conversions of some of the Company's convertible bonds and debentures.

### Year Ended December 31, 1971

Interest on debt increased over 1970 as a result of the Company issuing $60 million of debentures in December of 1970 and $90 million of bonds in April of 1971. Allowance for funds used during construction increased over the previous year because of the large construction program undertaken in 1971.

Investment and other income is derived from interest income on short term investments together with the Company's share of equity in earnings of a less than majority-owned affiliate. The fluctuation in this income from year to year primarily results from the amount of surplus cash available for investment.

# Corporate information

REGISTRARS

**Common Shares**

CANADA TRUST COMPANY — Montreal, P.Q., Toronto, Ont., Regina, Sask., Calgary, Alta., Vancouver, B.C.

CHEMICAL BANK
New York, N.Y.

**Preferred Shares**

CANADA PERMANENT TRUST COMPANY — Vancouver, B.C., Calgary, Alta., Regina, Sask., Winnipeg, Man., Toronto, Ont., Montreal, P.Q.

**Bonds**

MONTREAL TRUST COMPANY — Vancouver, B.C.

**Debentures**

Subordinate Debentures:

FIRST NATIONAL CITY BANK — New York, N.Y.

MONTREAL TRUST COMPANY (co-registrar) — Montreal, P.Q., Toronto, Ont., Calgary, Alta., Vancouver, B.C.

First Series Debentures:
CANADA PERMANENT TRUST COMPANY — Vancouver, B.C., Calgary, Alta., Regina, Sask., Winnipeg, Man., Toronto, Ont., Montreal, P.Q.

1993 Series Debentures:
CANADA TRUST COMPANY — Vancouver, B.C., Calgary, Alta., Regina, Sask., Winnipeg, Man., Toronto, Ont., Montreal, P.Q.

TRANSFER AGENTS

**Common Shares, Bonds, Subordinate Debentures**
MONTREAL TRUST COMPANY — Montreal, P.Q., Toronto, Ont., Calgary, Alta., Vancouver, B.C.

FIRST NATIONAL CITY BANK — New York, N.Y.
*(Series E Bonds are transferable at the Montreal Trust Company branch in Winnipeg, Man., and Shares are transferable at the Montreal Trust Company branch in Regina, Sask.)*

**First Series Debentures**
CANADA PERMANENT TRUST COMPANY — Vancouver, B.C., Calgary, Alta., Regina, Sask., Winnipeg, Man., Toronto, Ont., Montreal, P.Q.

**1993 Series Debentures**
CANADA TRUST COMPANY — Vancouver, B.C., Calgary, Alta., Regina, Sask., Winnipeg, Man., Toronto, Ont., Montreal, P.Q.

**Preferred Shares**

CANADA TRUST COMPANY — Vancouver, B.C., Calgary, Alta., Regina, Sask., Winnipeg, Man., Toronto, Ont., Montreal, P.Q.

STOCK EXCHANGES

Listed on the Toronto, Montreal and Vancouver Stock Exchanges in Canada and the New York and Pacific Coast Stock Exchanges in the United States.

OFFICES

1333 West Georgia Street, Vancouver, B.C. V6E 3K9

1212 — One Palliser Square, Calgary, Alberta T2G 0P6

STOCK MARKET PRICE RANGES Common Shares

| | New York | | Toronto | |
|---|---|---|---|---|
| | Low | High | Low | High |
| January-March 1973 | 20½ | 25⅜ | 19¾ | 24 |
| April-June 1973 | 17⅝ | 23¼ | 17 | 23⅛ |
| July-September 1973 | 16½ | 19½ | 15 | 18¾ |
| October-December 1973 | 16½ | 23⅛ | 14¾ | 22⅞ |
| January-March 1974 | 21¼ | 25¼ | 21 | 25 |
| April-June 1974 | 19½ | 23¼ | 18½ | 22⅞ |
| July-September 1974 | 15¼ | 19⅝ | 15 | 19⅝ |
| October-December 1974 | 15 | 19 | 14½ | 19¼ |

DIVIDENDS PAID Common Shares

| | |
|---|---|
| January-March 1973 | — |
| April-June 1973 | $0.375 |
| July-September 1973 | — |
| October-December 1973 | $0.375 |
| | $0.75 |
| January-March 1974 | — |
| April-June 1974 | $0.60 |
| July-September 1974 | — |
| October-December 1974 | $0.70 |
| | $1.30 |

## DIRECTORS

†*JOHN ANDERSON
Senior Vice President
Westcoast Transmission Company Limited
Vancouver, British Columbia

*KELLY H. GIBSON
Chairman of the Board and Chief Executive Officer
Westcoast Transmission Company Limited
Vancouver, British Columbia

J. TAYLOR KENNEDY
President and Chief Executive Officer
Canada Cement Lafarge Ltd.
Montreal, Quebec

DOUGLAS P. McDONALD, Q.C.
President
Saratoga Processing Company Limited
Calgary, Alberta

*EDWIN C. PHILLIPS
President
Westcoast Transmission Company Limited
Vancouver, British Columbia

J. ERNEST RICHARDSON
Chairman and Chief Executive Officer
British Columbia Telephone Company
Vancouver, British Columbia

WARREN A. ROBERTS
Executive Vice President
Phillips Petroleum Company
Bartlesville, Oklahoma

†WILLIAM H. TYE
Senior Vice President
Pacific Petroleums Ltd.
Calgary, Alberta

NORMAN R. WHITTALL
Financier
Vancouver, British Columbia

†CHARLES N. W. WOODWARD
Chairman of the Board
Woodward Stores Limited
Vancouver, British Columbia

Chairman Emeritus of the Board
FRANK M. McMAHON
Vancouver, British Columbia

## OFFICERS

KELLY H. GIBSON
Chairman of the Board and Chief Executive Officer

EDWIN C. PHILLIPS
President

JOHN ANDERSON
Senior Vice President

J. E. JOHNSON
Vice President, Operations and Engineering

R. M. RUTHERFORD
Vice President, Corporate Development

L. J. SMITH
Treasurer and Comptroller

C. D. WILLIAMS
General Counsel and Assistant Secretary

L. M. YOUELL
Secretary and Executive Assistant

D. O. HUNTER
Assistant Treasurer

*Executive Committee Member
†Audit Committee Member

from left: KELLY H. GIBSON,
J. ERNEST RICHARDSON.

J. TAYLOR KENNEDY

WARREN A. ROBERTS

from left: EDWIN C. PHILLIPS, WILLIAM H. TYE,
NORMAN R. WHITTALL.

from left: JOHN ANDERSON,
DOUGLAS P. McDONALD, Q.C., CHARLES W. WOODWARD.


# Ten year review

*(Dollar amounts are in thousands, except per share figures)*

**FINANCIAL**

Operations:
- Operating revenue
- Operating income
- Financial charges
- Provision for dividends on preferred shares
- Net income applicable to common shares
- Cash flow

Per Common Share:
- Net income — weighted average
- — fully diluted
- Dividends
- Dividend payout ratio
- Cash flow

Assets:
- Plant, property and equipment
- Accumulated depreciation
- Net plant, property and equipment
- Net additions to plant
- Total assets

Rate Base and Return:*
- Average utility rate base
- Average return on rate base

Capitalization:
- Long term debt
- Preferred shareholders' equity
- Common shareholders' equity
- — per common share
- Return on average common shareholders' equity

Capitalization Ratios:
- Long term debt
- Preferred shareholders' equity
- Common shareholders' equity

**STATISTICAL**

Total Gas Sales —
- Millions of cubic feet

Daily average sales —
- Thousands of cubic feet

Peak day sales —
- Thousands of cubic feet

System sales capacity —
- Thousands of cubic feet per day

Miles of transmission lines

Miles of gathering lines

Compressor horsepower

Shares outstanding — year end

Number of common shareholders

Number of employees

| | Years Ended December 31 | | | Nine Months Ended December 31 | | Years Ended March 31 | | | |
|---|---|---|---|---|---|---|---|---|---|
| **1974** | **1973** | **1972** | **1971** | **1970** | **1970** | **1969** | **1968** | **1967** | **1966** |
| $ 266,600 | $ 168,764 | $ 139,492 | $ 101,575 | $ 69,684 | $ 92,837 | $ 84,675 | $ 77,736 | $ 67,939 | $ 60,895 |
| 49,974 | 47,093 | 42,810 | 26,665 | 16,254 | 22,415 | 19,666 | 19,738 | 16,714 | 14,277 |
| 27,680 | 28,062 | 26,189 | 24,960 | 14,597 | 18,854 | 16,115 | 10,533 | 11,110 | 11,574 |
| 1,559 | — | — | — | — | — | — | — | — | — |
| 25,172 | 24,001 | 20,844 | 9,230 | 3,103 | 5,319 | 2,409 | 8,812 | 6,033 | 2,350 |
| 47,161 | 42,082 | 37,931 | 21,836 | 12,779 | 16,845 | 16,033 | 18,420 | 14,692 | 11,924 |
| 2.90 | 2.80 | 2.46 | 1.37 | .46 | .79 | .36 | 1.32 | .91 | .35 |
| 2.48 | 2.41 | 2.28 | 1.37 | .46 | .79 | .36 | 1.32 | .91 | .35 |
| 1.30 | .75 | .60 | .50 | .50 | .50 | .25 | .25 | .25 | — |
| 45% | 27% | 24% | 36% | 109% | 63% | 69% | 19% | 27% | — |
| 5.44 | 4.91 | 4.48 | 3.23 | 1.91 | 2.51 | 2.40 | 2.76 | 2.20 | 1.80 |
| 699,954 | 653,223 | 618,071 | 564,769 | 461,394 | 429,486 | 414,334 | 388,540 | 345,105 | 303,684 |
| 149,212 | 131,826 | 115,262 | 100,175 | 89,839 | 81,238 | 70,681 | 67,064 | 58,305 | 50,111 |
| 550,742 | 521,397 | 502,809 | 464,594 | 371,555 | 348,248 | 343,653 | 321,476 | 286,800 | 253,573 |
| 46,731 | 35,152 | 53,302 | 103,375 | 31,908 | 15,152 | 25,794 | 43,435 | 41,421 | (505) |
| 644,277 | 614,217 | 571,584 | 533,836 | 437,154 | 410,079 | 408,041 | 352,766 | 317,920 | 287,501 |
| 493,404 | — | — | — | — | — | — | — | — | — |
| 9.5% | — | — | — | — | — | — | — | — | — |
| 367,105 | 386,960 | 371,098 | 378,712 | 305,518 | 257,580 | 262,268 | 174,702 | 182,028 | 192,728 |
| 40,000 | — | — | — | — | — | — | — | — | — |
| 190,668 | 174,332 | 156,508 | 96,459 | 89,396 | 89,700 | 87,604 | 86,819 | 79,364 | 74,914 |
| 21.98 | 20.33 | 18.28 | 14.27 | 13.34 | 13.39 | 13.08 | 12.97 | 11.91 | 11.25 |
| 13.8% | 14.5% | 16.5% | 9.9% | 3.5% | 5.9% | 2.7% | 10.6% | 7.8% | 3.2% |
| 61.4% | 68.9% | 70.3% | 79.7% | 77.4% | 74.2% | 74.9% | 66.8% | 69.6% | 72.0% |
| 6.7% | — | — | — | — | — | — | — | — | — |
| 31.9% | 31.1% | 29.7% | 20.3% | 22.6% | 25.8% | 25.1% | 33.2% | 30.4% | 28.0% |
| 362,257 | 412,156 | 368,679 | 287,659 | 197,384 | 258,887 | 248,095 | 217,300 | 191,040 | 169,848 |
| 992,484 | 1,129,194 | 1,007,319 | 788,106 | 717,759 | 709,279 | 679,709 | 593,714 | 523,397 | 465,337 |
| 1,188,996 | 1,284,742 | 1,251,035 | 1,122,791 | 886,679 | 866,935 | 854,074 | 719,348 | 685,236 | 645,991 |
| 1,306,000 | 1,306,000 | 1,231,000 | 1,102,000 | 864,000 | 864,000 | 864,000 | 864,000 | 698,000 | 637,000 |
| 1,374 | 1,374 | 1,290 | 1,202 | 966 | 966 | 966 | 966 | 908 | 867 |
| 794 | 715 | 713 | 679 | 568 | 568 | 564 | 532 | 527 | 462 |
| 441,220 | 382,220 | 381,220 | 343,720 | 287,820 | 287,820 | 283,220 | 283,220 | 172,820 | 172,820 |
| 8,673,400 | 8,575,977 | 8,562,943 | 6,760,341 | 6,703,817 | 6,699,817 | 6,695,264 | 6,691,694 | 6,665,084 | 6,657,784 |
| 9,525 | 10,225 | 10,630 | 10,450 | 10,585 | 10,183 | 10,765 | 11,560 | 11,822 | 12,650 |
| 519 | 515 | 502 | 494 | 518 | 526 | 514 | 471 | 402 | 330 |

*The nature of the Company's utility operations changed significantly in November, 1973 at which time it commenced operating on a cost-of-service basis whereby utility operating costs are recovered and the Company receives a return on its utility investment.

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